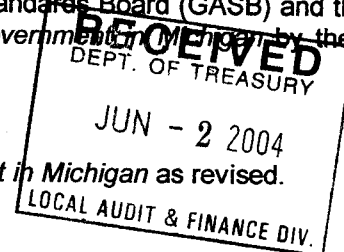


## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Hancock	<b>County</b> Houghton
<b>Audit Date</b> March 31, 2004	<b>Opinion Date</b> May 20, 2004	<b>Date Accountant Report Submitted to State:</b> May 20, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

**Certified Public Accountant (Firm Name)**  
Campbell, Kusterer & Co., P.C.

**Street Address**  
512 N. Lincoln, Suite 100, P.O. Box 686

**City**  
Bay City

**State**  
MI

**Zip**  
48707

**Accountant Signature**  
*Campbell, Kusterer & Co., P.C.*

TOWNSHIP OF HANCOCK  
Houghton County, Michigan

**RECEIVED**  
GENERAL PURPOSE FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
JUN - 2 2004  
Year Ended March 31, 2004

TOWNSHIP OF HANCOCK  
Houghton County, Michigan

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# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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## **INDEPENDENT AUDITOR'S REPORT**

May 20, 2004

To the Township Board  
Township of Hancock  
Houghton County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Hancock, Houghton County, Michigan, as of March 31, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Hancock's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Hancock, Houghton County, Michigan, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of Hancock, Houghton County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF HANCOCK  
Houghton County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

March 31, 2004

EXHIBIT A

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Agency</u>
<u>Assets</u>			
Cash in bank	86 195 86	1 733 64	1 646 36
Taxes receivable	2 402 90	-	-
Due from other funds	400 61	-	-
Prepaid expenses	1 300 00	-	-
Land	-	-	-
Building	-	-	-
Equipment	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-
Total Assets	<u>90 299 37</u>	<u>1 733 64</u>	<u>1 646 36</u>
<u>Liabilities and Fund Equity</u>			
Liabilities:			
Accounts payable	251 67	-	-
Due to other funds	-	-	400 61
Due to others	-	-	1 245 75
Note payable – fire truck	-	-	-
Total liabilities	<u>251 67</u>	<u>-</u>	<u>1 646 36</u>
Fund equity:			
Investment in general fixed assets	-	-	-
Fund balances:			
Unreserved:			
Undesignated	<u>90 047 70</u>	<u>1 733 64</u>	<u>-</u>
Total fund equity	<u>90 047 70</u>	<u>1 733 64</u>	<u>-</u>
Total Liabilities and Fund Equity	<u>90 299 37</u>	<u>1 733 64</u>	<u>1 646 36</u>

The accompanying notes are an integral part of these financial statements.

<u>Account Groups</u>		<u>Total</u>
<u>General</u>	<u>General</u>	<u>(Memorandum</u>
<u>Fixed Assets</u>	<u>Long-Term Debt</u>	<u>Only)</u>
-	-	89 575 86
-	-	2 402 90
-	-	400 61
-	-	1 300 00
4 822 31	-	4 822 31
67 002 00	-	67 002 00
78 838 75	-	78 838 75
<u>-</u>	<u>33 076 63</u>	<u>33 076 63</u>
<u>150 663 06</u>	<u>33 076 63</u>	<u>277 419 06</u>
-	-	251 67
-	-	400 61
-	-	1 245 75
-	<u>33 076 63</u>	<u>33 076 63</u>
<u>-</u>	<u>33 076 63</u>	<u>34 974 66</u>
150 663 06	-	150 663 06
-	-	91 781 34
<u>150 663 06</u>	<u>-</u>	<u>242 444 40</u>
<u>150 663 06</u>	<u>33 076 63</u>	<u>277 419 06</u>

TOWNSHIP OF HANCOCK  
Houghton County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

EXHIBIT B

Year Ended March 31, 2004

	<u>Governmental Fund Types</u>		<u>Total</u>
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum Only)</u>
Revenues:			
Property taxes	30 638 59	-	30 638 59
State revenue sharing	29 020 00	-	29 020 00
Charges for services:			
Property tax administration	5 918 69	-	5 918 69
Cemetery	-	2 050 00	2 050 00
Interest	1 781 44	34 74	1 816 18
Special assessments	12 060 00	-	12 060 00
Miscellaneous	731 66	-	731 66
Total revenues	<u>80 150 38</u>	<u>2 084 74</u>	<u>82 235 12</u>
Expenditures:			
Legislative:			
Township Board	6 175 71	-	6 175 71
General government:			
Supervisor	4 878 29	-	4 878 29
Assessor	5 217 08	-	5 217 08
Clerk	5 018 35	-	5 018 35
Board of Review	300 00	-	300 00
Treasurer	7 439 17	-	7 439 17
Buildings and grounds	6 880 40	-	6 880 40
Cemetery	-	1 440 85	1 440 85
Public safety:			
Fire protection	6 167 12	-	6 167 12
Public works:			
Sanitation	8 265 00	-	8 265 00
Capital outlay	562 45	-	562 45
Debt service	6 389 28	-	6 389 28
Total expenditures	<u>57 292 85</u>	<u>1 440 85</u>	<u>58 733 70</u>
Excess of revenues over expenditures	22 857 53	643 89	23 501 42
Fund balance, April 1	<u>67 190 17</u>	<u>1 089 75</u>	<u>68 279 92</u>
Fund Balance, March 31	<u>90 047 70</u>	<u>1 733 64</u>	<u>91 781 34</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HANCOCK  
Houghton County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –  
GENERAL AND SPECIAL REVENUE FUNDS

EXHIBIT C

Year Ended March 31, 2004

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Property taxes	33 250 00	30 638 59	(2 611 41)
State revenue sharing	30 000 00	29 020 00	(980 00)
Charges for services:			
Property tax administration	-	5 918 69	5 918 69
Cemetery	-	-	-
Interest	700 00	1 781 44	1 081 44
Special assessments	11 000 00	12 060 00	1 060 00
Miscellaneous	200 00	731 66	531 66
Total revenues	<u>75 150 00</u>	<u>80 150 38</u>	<u>5 000 38</u>
Expenditures:			
Legislative:			
Township Board	10 544 60	6 175 71	(4 368 89)
General government:			
Supervisor	5 281 92	4 878 29	(403 63)
Assessor	6 081 92	5 217 08	(864 84)
Clerk	6 315 28	5 018 35	(1 296 93)
Board of Review	525 00	300 00	(225 00)
Treasurer	8 395 28	7 439 17	(956 11)
Building and grounds	8 250 00	6 880 40	(1 369 60)
Cemetery	3 600 00	-	(3 600 00)
Public safety:			
Fire protection	8 900 00	6 167 12	(2 732 88)
Public works:			
Sanitation	8 500 00	8 265 00	(235 00)
Capital outlay	600 00	562 45	(37 55)
Debt service	6 500 00	6 389 28	(110 72)
Total expenditures	<u>73 494 00</u>	<u>57 292 85</u>	<u>(16 201 15)</u>
Excess of revenues over expenditures	1 656 00	22 857 53	21 201 53
Fund balances, April 1	<u>-</u>	<u>67 190 17</u>	<u>67 190 17</u>
Fund Balances, March 31	<u>1 656 00</u>	<u>90 047 70</u>	<u>88 391 70</u>

The accompanying notes are an integral part of these financial statements.

<u>Special Revenue Fund</u>		
<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
-	-	-
-	-	-
-	-	-
1 500 00	2 050 00	550 00
-	34 74	34 74
-	-	-
-	-	-
<u>1 500 00</u>	<u>2 084 74</u>	<u>584 74</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
1 500 00	1 440 85	(59 15)
-	-	-
-	-	-
-	-	-
-	-	-
<u>1 500 00</u>	<u>1 440 85</u>	<u>(59 15)</u>
-	643 89	643 89
-	1 089 75	1 089 75
-	1 733 64	1 733 64

TOWNSHIP OF HANCOCK  
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Hancock, Houghton County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Hancock. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

This fund is used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

TOWNSHIP OF HANCOCK  
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Account Groups

General Fixed Assets Account Group

This account group presents the fixed assets of the local unit utilized in its general operations.

General Long-Term Debt Account Group

This account group presents the balance of general obligation long-term debt.

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

TOWNSHIP OF HANCOCK  
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Property Taxes (continued)

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2003 Township tax roll millage rate was 2.6183 mills and the taxable value was \$11,703,527.00.

Fixed Assets

Purchases of fixed assets for all funds are recorded as expenditures in their respective funds at the time of purchase. They are also recorded at cost in the General Fixed Assets Group of Accounts as required by generally accepted accounting principles.

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

TOWNSHIP OF HANCOCK  
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Township provides no postemployment benefits to past employees.

TOWNSHIP OF HANCOCK  
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 2 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>89 575 86</u>
Amounts in the bank balances are without considering deposits in transit or uncleared checks.	
	<u>Bank Balances</u>
Insured (FDIC)	89 941 59
Uninsured and Uncollateralized	<u>-</u>
Total Deposits	<u>89 941 59</u>

The Township of Hancock did not have any investments as of March 31, 2004.

TOWNSHIP OF HANCOCK  
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 3 – Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/04</u>
Land	4 822 31	-	-	4 822 31
Buildings	67 002 00	-	-	67 002 00
Equipment	<u>78 276 30</u>	<u>562 45</u>	<u>-</u>	<u>78 838 75</u>
Totals	<u>150 100 61</u>	<u>562 45</u>	<u>-</u>	<u>150 663 06</u>

Note 4 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>400 61</u>	Current Tax Collection	<u>400 61</u>

Note 5 – Changes in General Long-Term Debt

The following is a summary of changes in general long-term debt:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/04</u>
Note payable – fire truck	<u>37 855 00</u>	<u>-</u>	<u>4 778 37</u>	<u>33 076 63</u>
Totals	<u>37 855 00</u>	<u>-</u>	<u>4 778 37</u>	<u>33 076 63</u>

Note Payable – Fire Truck Due in bi-monthly installments in the amount of \$266.22 including interest.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

TOWNSHIP OF HANCOCK  
Houghton County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 7 – Pension Plan

The Township has a defined contribution pension plan covering all full time employees. The Township contributes an amount of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2004, was \$1,762.70.

Note 8 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 – Building Permits

The Township of Hancock does not issue building permits. Building permits are issued by the County of Houghton.

Note 10 – Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

TOWNSHIP OF HANCOCK  
Houghton County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year Ended March 31, 2004

EXHIBIT D

	<u>Balance</u> <u>4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/04</u>
<u>Assets</u>				
Cash in bank	<u>1 916 49</u>	<u>444 952 16</u>	<u>445 222 29</u>	<u>1 646 36</u>
<u>Liabilities</u>				
Due to other funds	726 33	44 897 99	45 223 71	400 61
Due to others	<u>1 190 16</u>	<u>400 054 17</u>	<u>399 998 58</u>	<u>1 245 75</u>
Total Liabilities	<u>1 916 49</u>	<u>444 952 16</u>	<u>445 222 29</u>	<u>1 646 36</u>

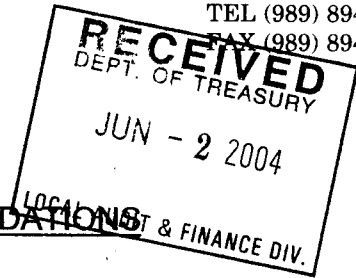
# CAMPBELL, KUSTERER & CO., P.C.

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## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

May 20, 2004

To the Township Board  
Township of Hancock  
Houghton County, Michigan

We have audited the financial statements of the Township of Hancock, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Hancock in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Township Board  
Township of Hancock  
Houghton County, Michigan

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the Township Board  
Township of Hancock  
Houghton County, Michigan

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Township of Hancock will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Township will be required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2004.

### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants